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Explanatory Comments on Statement of Realized Cost of
Agricultural and Related Programs, by Function or Purpose,
Fiscal Years 1932-1955

The following statement is designed to show, on a factual and objective basis, the realized costs of the programs of the Department of Agriculture. These programs have been classified into six groups, each of which represents a distinct functional area of activity. The functional classifications are as follows:

1. Programs primarily for stabilization of farm prices and income.
2. Programs primarily for conservation of resources.
3. Credit and related programs for electrification and telephone facilities, and farm purchase, maintenance, operation, and housing.
4. Research and education.
5. Other, chiefly school lunch, marketing services, regulatory, crop and animal disease and pest control activities.
6. Programs primarily for wartime, defense, and other special needs.

Each function brings together programs which are related to a broad purpose, regardless of the organizational status of the program within the Department. The administrative procedures and operating mechanics of the programs may vary, but the classification test is whether the programs contribute to a common purpose in the field of agriculture.

The overall realized cost of all of the Department's activities, in all functional areas for the 24-year period, has been \$19,893.4 million.

Programs Primarily for Stabilization of
Farm Prices and Income

In this category there has been included those programs which, by various means, have operated to strengthen and protect the price of farm commodities and the income of farmers. Such programs have been operated in accordance with, and in the manner prescribed by, authorizing legislation. The terminology used to designate these programs is governed by legislative and expenditure authorizations. The amounts are consistent with the accounting records of this Department and of the U. S. Treasury.

Over the span of 24 years, from 1932 to 1955, inclusive, the character of the programs authorized for this common purpose of stabilizing farm prices and

income has varied. Some have been operated for a short period and terminated and others have been initiated only recently. The statement shows each of the programs and the realized cost for each year of its operation, as well as the cumulative total cost for all of the years of operation within the 24-year period.

The aggregate realized cost of all of the programs and activities included in the functional category, "Programs primarily for stabilization of farm prices and income," for the period from 1932 to 1955 was \$9,819.3 million, with actual annual realized cost ranging from a net gain of \$51.2 million in 1947 to a \$1,350.1 million loss in the fiscal year ending June 30, 1955.

The relationship of the cumulative realized costs of these programs, \$9,819.3 million, to commodities is demonstrated by the following tabulation:

	<u>Millions</u>
Basic commodities	\$5,632.7
Designated nonbasic commodities	1,733.3
Other nonbasic commodities	<u>2,011.5</u>
	9,377.3 <u>a/</u>
Realized costs not allocable by specific commodities	<u>442.0</u>
	\$9,819.3

a/ Detail does not add to total shown due to rounding.

For the basic commodities, the realized costs were as follows:

	<u>Millions</u>
Corn	\$1,319.3
Cotton	1,602.9
Peanuts	166.5
Rice	29.3
Tobacco	101.8
Wheat	<u>2,412.9</u>
	\$5,632.7

These realized costs for basic commodities are attributable to the following programs:

	<u>Millions</u>
CCC nonrecourse loan, purchase, and payment programs	\$392.7
CCC supply, commodity export, and other activities	109.9
International Wheat Agreement	700.9
Donations of commodities to other nations	145.5
Commodities sold for foreign currencies under Title I, P.L. 480	99.9
Removal of surplus agricultural commodities	556.3
Federal crop insurance	75.5
Acreage allotment payments under the Agricultural Conservation program	1,666.3
Agricultural Adjustment programs (principally acreage allotments and marketing quotas)	111.7
Parity payments	967.1
Agricultural Adjustment Act of 1933 and related Acts	505.6
Agricultural Marketing Act Revolving Fund, and payments to stabilization corporations for losses incurred	286.4
Distribution costs on CCC stocks for emergency feed program	13.6
Retirement of cotton pool participation trust certificates	<u>1.3</u>
	\$5,632.7

The programs shown first in this functional category are those now administered by the Commodity Credit Corporation. The Corporation is authorized to engage in buying, selling, lending, and other activities with respect to agricultural commodities to stabilize, support, and protect farm prices, to assist in the maintenance of adequate supplies and to facilitate their distribution.

Under the CCC nonrecourse loan, purchase and payment programs, price minimums or "floors" are established for a number of commodities. Support may be achieved through loans, purchases, agreements to purchase, or payments.

Loans are made to producers of commodities at specified support levels, determined either by law or by action of the Secretary in accordance with law. The producers are required to pledge their commodities as collateral for such loans. If, for any reason, the producer elects not to repay his loan, the pledged commodity is acquired by the Corporation and placed in its inventory. The corporation may, in lieu of a loan program, support the price of a commodity either by direct purchase during the regular marketing season or by agreements with producers to purchase at a stated price any quantity of the commodity within a specified maximum that he may elect to deliver.

The cumulative realized cost of disposing of commodity inventories acquired under this system of loans and purchases now administered by CCC amounted to \$2,328.7 million at June 30, 1955. This figure, however, does not reflect administrative expenses and net interest costs of the Commodity Credit Corporation. Moreover, it does not represent the full cost of government activities for stabilization of farm prices and income. Therefore, included in this same functional category are the following programs, all of which contribute importantly to that objective.

The costs shown for "CCC supply, commodity export and other activities" represent the results of commodity procurement operations undertaken as a means of supplying the requirements of Government agencies, foreign governments, and relief and rehabilitation agencies, and to meet domestic requirements. The cumulative net result of those operations to June 30, 1955, has been a gain of \$203.7 million. This gain can be attributed in large part to a general commodities purchase program operated during World War II for the supplying of commodities and products thereof to meet the requirements of the U. S. Armed Services, Lend-Lease participants, foreign governments, relief agencies, etc. Sales prices on the commodities were established at levels which would prevent losses to the Corporation.

The "CCC administrative and other general costs" amounting to a total of \$484.2 million at June 30, 1955, represent, in principal part, the net interest cost on money borrowed by the Commodity Credit Corporation. They include also the administrative or overhead expenses not allocable by programs.

"National Wool Act program", is authorized by the National Wool Act of 1954. The law provides for the support of prices of wool and mohair through incentive payments made to producers by the Commodity Credit Corporation. Only administrative costs incident to the initiation of the program occurred in fiscal year 1955, and amounted to \$0.2 million.

The next three activities shown on the statement are the "International Wheat Agreement", "Donations of commodities to other nations", and "Commodities sold for foreign currencies under Title I, P.L. 480". While these programs are international in nature and serve more than one purpose, they are included because they do provide an outlet for surplus wheat and other commodities, and thereby contribute substantially to the maintenance of stable prices and income.

The "International Wheat Agreement" operates to provide to export countries an assured market for wheat, and to assure supplies of wheat to importing countries at stable and equitable prices. The capital funds of the Commodity Credit Corporation are applied (a) to pay exporters the difference between the price specified in the agreement and the price paid by them to purchase and move wheat from the domestic market, and (b) to meet administrative and interest costs incurred by the Corporation. The realized costs of this program, which are reimbursed by appropriation to the Commodity Credit Corporation, have aggregated \$716.8 million through June 30, 1955.

Under the program "Donations of commodities to other nations" stocks of the Commodity Credit Corporation are made available for emergency assistance to friendly peoples in meeting famine and other urgent relief requirements. The program is currently administered in accordance with Title II, P.L. 480. Previously this type of assistance had been carried out under P.L. 77, 83rd Congress, relating to wheat for Pakistan and under P.L. 216, 83rd Congress, with respect to other nations. As shown by the statement, the cumulative realized cost for fiscal years 1954 and 1955, the two years of operations, amounts to \$165.8 million.

"Commodities sold for foreign currencies under Title I, P.L. 480". The realized cost of this program as shown by the statement, \$129.5 million, represents the costs incurred by the Commodity Credit Corporation in the fiscal year 1955 as a result of the sale and shipment of surplus agricultural commodities under the provisions of Title I, P.L. 480. Payment received for such sales is in the form of foreign currencies. At June 30, 1955 the U. S. dollar equivalent of the foreign currencies collected and deposited to the credit of the United States amounted to \$57.3 million. (This dollar equivalent is based on the rates of exchange set forth in the agreements negotiated with the individual countries receiving the commodities.) These foreign currencies may be used, upon approval of the Bureau of the Budget, only for the purposes authorized in Section 104, of Title I, P.L. 480. At the close of the fiscal year 1955 none of these foreign currencies had been used or allocated for any of the authorized purposes.

The program, "Removal of surplus agricultural commodities," is aimed at expanding market outlets for farm commodities. This is accomplished mainly through (a) purchases and distribution to school lunch programs and to welfare agencies and institutions, and (b) encouraging exports by payments which enable the sale of surplus commodities in foreign markets. There are also other activities in this program such as diversion of commodities to by-products and new uses and the administration of marketing agreements and orders. The program tends, both directly and indirectly, to maintain prices received by farmers, principally for perishable agricultural commodities. The cumulative realized cost of the program to June 30, 1955 of \$1,804.1 million, as shown by the statement, does not include cash payments to schools under the school lunch program in the period from 1943 to 1949. The school lunch program is treated in a different functional category.

Next in this first functional category is the "Sugar Act" program. The principal objectives of the sugar program are to protect the welfare of domestic producers, to provide consumers with adequate supplies of sugar at reasonable prices, and to promote our general export trade. The statement shows the cumulative result of

the sugar program to June 30, 1955. This comprises gross expenditures of \$975.3 million for payments to domestic producers and administrative expenses, offset by sugar taxes of \$1,298.9 million collected from processors and importers, with a resulting net gain of \$323.6 million. The sugar taxes consist of an excise levy on domestic processors and an import tax on sugar brought in for direct consumption. The Sugar Act imposed these taxes through an amendment to the Internal Revenue Code. The payments to domestic producers were also provided for by the Sugar Act and are conditioned on compliance with production quotas and other requirements.

A "Federal crop insurance" program has as its purpose the economic stability of agriculture by providing protection against loss from unavoidable causes for the farmer's investment in producing crops. The realized costs of this program, shown by the statement to aggregate \$178.9 million at June 30, 1955, represent principally the excess of indemnities over premiums, administrative expenses, and interest costs on government-subscribed capital.

"Acreage allotment payments under the Agricultural Conservation Program." These so-called "Class I" or acreage allotment payments, under Section 8(b) of the Act of February 29, 1936, the Soil Conservation and Domestic Allotment Act, as amended, were aimed at maintaining farm production in balance with demand. This was carried out by the establishment of individual farm acreage allotments of soil-depleting crops representing proportionate shares of national production goals. The acreage allotment payments compensated farmers, in part, for making their proportionate acreage adjustments. This item excludes the so-called "Class II" payments for conservation practices which are shown on the statement under the function headed "Programs Primarily for Conservation of Resources." The cost of these acreage allotment payments, which were made in the period 1937 through 1944, amounted to \$2,354.8 million.

The last item in the first functional category is designated as "Other, including Agricultural Adjustment Act of 1933, parity payments, and other adjustment and surplus removal programs." Over the period from 1932 through 1955, the cumulative total of realized costs for these programs has amounted to \$2,183.6 million. There are a number of programs covered by this item, as follows:

1. The "Agricultural adjustment programs (principally acreage allotments and marketing quotas)." These programs carry out the acreage-allotment and marketing-quota provisions of Title III of the Agricultural Adjustment Act of 1938, as amended. They are designed to assist in minimizing fluctuations in the supply, marketing, and price of specified basic agricultural commodities--corn, cotton, wheat, peanuts, rice, and tobacco. Prior to 1947 these programs were operated as a part of the Agricultural Conservation Program. The realized cost of operation for the period 1947-1955 totals \$118.7 million.
2. The program, "Parity payments". The Agricultural Adjustment Act of 1938 authorized payments of Federal funds directly to producers of corn, wheat, cotton, rice, or tobacco for the purpose of reestablishing farm income and purchasing power somewhat nearer the prewar level (World War I). Such payments were authorized to be made to producers on the normal production of the listed commodities, and were to be allocated

among commodities on the basis of the amount by which the farm prices of the commodities were below parity. The realized cost of this program, representing expenditures in the years 1940-1944, amounts to \$1,016.6 million.

3. The programs under the "Agricultural Adjustment Act of 1933 and related Acts." The objective of the Agricultural Adjustment Act of 1933 and subsequent related Acts, was to bring about an increase in farm buying power. To accomplish this the Secretary of Agriculture was authorized to make benefit payments to producers who reduced their acreage or production for market of basic commodities. Financing of the AAA and related Acts was accomplished through both appropriated funds and an excise tax levied on the processing of any basic commodity on which benefit payments were made. The tax funds could be used for the expansion of markets and the removal of surplus agricultural products, as well as for benefit payments and administrative expenses. The gross expenditures for the programs, which ran from 1934 through 1937, amounted to \$1,482.6 million; the processing taxes collected together with a small amount of miscellaneous receipts totaled \$911.5 million. The net realized cost of the program was \$571.1 million.
4. The programs "Agricultural Marketing Act Revolving Fund, and payments to stabilization corporations for losses incurred." The cost of \$378.6 million for these programs includes principally losses incurred on loans made from the Agricultural Marketing Act Revolving Fund. These loan losses amounted to \$338.6 million. Also included are losses in the amount of \$40 million which represent donations of cotton and wheat authorized by Congress to the American Red Cross. The losses are applicable to transactions which occurred prior to the assumption of the management of the Fund by the Farm Credit Administration in May 1933
5. Five "miscellaneous" programs described as follows:
 - (a) Distribution costs on CCC stocks and hay for emergency feed program. This program, financed from the Disaster Loan Revolving Fund, involved the furnishing of feed and hay in the fiscal years 1954 and 1955. The cost of transporting feed furnished by the Commodity Credit Corporation was paid from the fund and totaled \$27.7 million. The fund also made advances to States to assist in defraying the cost of transporting hay purchased by the States and these costs totaled \$8.5 million. The aggregate cost of this phase of the emergency feed program was \$36.2 million.
 - (b) Federal Surplus Commodities Corporation. This Corporation operated from 1935 to 1942 for the purpose of purchasing, processing, storing, handling, transporting, and disposing of surplus agricultural commodities and products for relief. The operations of the Corporation resulted in a net gain of \$15.7 million, arising principally from the sale of hides.

- (c) Retirement of cotton pool participation trust certificates. This program represents the close-out of cotton pool participation trust certificates issued under the cotton pool established pursuant to the Agricultural Adjustment Act of 1933. The cost of the program, which took place in 1939-40, amounted to \$1.4 million.
- (d) Removal of surplus cattle and dairy products. The Jones-Connally Cattle Act of 1934 authorized, among other things, the purchase of surplus cattle in drought-stricken areas and expenditures for the removal of surplus dairy products throughout the country generally. The cost of this program, extending from 1934 through 1936, was \$76.6 million.
- (e) Transfer of hay and pasture seeds to Federal land administering agencies. P.L. 524, 83rd Congress, authorized the transfer of seeds from Commodity Credit Corporation stocks to the Forest Service, Fish and Wildlife Service, and Bureau of Land Management for use in seeding grazing lands administered by them. The realized cost of the seeds transferred in fiscal year 1955 amounted to \$0.1 million, which amount is reimbursable by appropriation to the Commodity Credit Corporation.

Programs Primarily for the Conservation of Resources

The overall realized cost of the programs primarily for the conservation of resources for the 24-year period was \$5,220.7 million. Actual annual realized costs in recent years have ranged from \$416.4 million in fiscal year 1947 to \$265.0 million in fiscal year 1954.

All of the programs in this category are indicated by their very nature to relate to the same broad purpose. The "Agricultural Conservation Program" is designed to encourage conservation by sharing with farmers and ranchers the cost of applying approved measures considered as needed in the public interest and which farmers generally would not perform adequately with their own resources. This program has been in effect since 1936 and the total cost to June 30, 1955, was \$3,894.5 million.

"Soil Conservation Service programs" aid in bringing about physical adjustments in land use to conserve soil and water resources. The total cost of these programs for the period 1932-1955, inclusive, was \$711.7 million and covers the expenditures for technical assistance and other services to farmers and ranchers.

The "Forest Service programs" carried here include principally (1) Management, protection, and development of the National Forests; and (2) Cooperation with State and private forest landowners. These activities have the common objective of promoting the conservation and wise use of the country's forest and related watershed lands. The realized cost of the programs, shown by the statement to be \$552.2 million for the 24-year period, represents a net figure. The gross expenditures for forest programs have been \$1,145.5 million while the gross receipts, arising from timber sales, grazing fees, recreational areas, etc., have amounted to \$593.3 million.

"Flood prevention and watershed protection" programs aim (1) to prevent or reduce flood water and sediment damage in upstream areas and to reduce sedimentation of river channels and reservoirs; and (2) to cooperate with State and local public agencies in planning and installing works of improvement in small upstream watersheds to prevent erosion, flood water, and sediment damage. The cost of the programs to June 30, 1955, was \$62.3 million.

Credit and Related Programs for Electrification and
Telephone Facilities, and Farm Purchase, Maintenance,
Operation, and Housing

The realized cost for this functional category has been \$1,344.3 million, and in recent years the actual annual realized costs have ranged from \$28.2 million in fiscal year 1948 to \$60.1 million in fiscal year 1953.

Included in this category are the lending operations of the Rural Electrification Administration and the Farmers Home Administration. The costs of the programs have been segregated as between those pertaining directly to the lending operations and those pertaining to the administration of the programs, including some grants of funds by the Farmers Home Administration.

The Rural Electrification Administration makes loans to cooperatives and others to provide electric service to farms and other rural establishments and, also, to furnish and improve telephone service in rural areas. These loans constitute investments and hence cannot be regarded as costs since they are recoverable. Therefore, the cost of the lending program can only be considered as the losses sustained on loans and the interest cost to the Federal Government on the funds made available for lending and actually advanced to borrowers. In the case of the Rural Electrification Administration loan losses have been less than \$50,000, and the realized cost figure of \$142.0 million, shown by the statement, represents the Government's interest cost on funds advanced to borrowers less the interest collected from borrowers. The realized cost of the noncorporate lending program of the Rural Electrification Administration reported in this statement should not be confused with figures reported for this program on the accrued income and expense basis. The latter basis differs from the realized cost principally because it includes (1) income earned but not yet collected, (2) interest costs charged to the agency rather than interest costs to the Treasury on borrowed funds, and (3) an estimated allowance for possible losses on loans. On the accrued income and expense basis the lending operations of REA reflect a net income of \$49.0 million for the period covered by this statement.

For the Farmers Home Administration, which makes loans to farmers for farm operating expenses, farm ownership, farm housing, and water facilities, the same approach to realized cost on the lending program has been followed. Losses on loans have totaled \$153.8 million, and interest income (which in this instance is an income figure because the interest collected has exceeded the Government's interest cost) amounted to \$65.6 million, giving a net realized cost of \$88.2 million.

The administrative expenses of REA and FHA, together with grants amounting to \$153.4 million made largely in the late 1930's and early 1940's by the Farmers Home Administration, total \$1,114.1 million.

Research and Education

"Research" embraces all research activities of the Department, including grants to States administered by the Department, concerned with the production, storage, distribution and utilization of agricultural products, and with human nutrition and home economics. The cost of these programs, as shown by the statement for the 24-year period, was \$857.9 million.

"Education" is represented by the activities of the Federal Extension Service, and includes payments to States for cooperative agricultural extension work. The extension service brings to rural people and others the results of research conducted by the Department, the colleges and other agencies. Its objective is to help people to help themselves to attain greater efficiency in farming, in marketing, and in distribution, and to have better homes and higher standards of living. As the statement shows, the total cost for the 24-year period was \$548.1 million.

Other, Chiefly School Lunch, Marketing Services, Regulatory, Crop and Animal Disease and Pest Control Activities

This category includes the school lunch program, marketing services, regulatory activities, crop and animal disease and pest control activities, crop and livestock estimates work, and the staff offices of the Department. The school lunch program, for which a total cost of \$856.6 million is shown, includes the cash payments to States under the National School Lunch Act, the commodities purchased under Section 6 of the Act, and certain cash payments made from funds available under Section 32 of the Act of August 24, 1935. It does not include the cost of commodities donated either by the Commodity Credit Corporation or from the program for the removal of surplus agricultural commodities, as they are included in the first functional category.

These "Other" programs are shown to have an aggregate cost of \$896.2 million for the 24-year period.

Programs Primarily for Wartime, Defense, and Other Special Needs

Includes such programs as Farm Labor, Emergency Rubber Project, Eradication of Foot-and-Mouth Disease in Mexico, liquidation of Sugar Rationing Administration and the administrative expenses of the War Food Administration. The cost of these programs totaled \$350.3 million during the period covered by the statement.

The statement contains three other sections dealing with programs related to agriculture but which are not a part of the regular activities of the Department.

A section is shown for the Farm Credit Administration, which was transferred from the Department on December 4, 1953, but which conducts programs directly related to agricultural interests.

The section dealing with the Wartime Consumer Subsidy Program, as conducted through the Commodity Credit Corporation and the Reconstruction Finance Corporation, shows the cost of payments for or purchases of agricultural products to maintain consumer price ceilings during World War II.

The last section, titled "Other special activities not a part of the agricultural programs of the Department", is self-explanatory as to its purpose. The Government procurement of agricultural commodities other than by the Department of Agriculture has been done through the International Cooperation Administration and its predecessor agencies.

Supplementing the Realized Cost Statement is an appendix which is titled "Summary of Realized Cost of Agricultural Programs Primarily for Stabilization of Farm Prices and Income, Showing Distribution of Cost by Commodity Groups." This appendix constitutes a breakdown by commodity groups of the total realized cost of \$9,819.3 million for these programs. Detailed information is shown for the basic commodities, designated nonbasic commodities, and some of the other non-basic commodities.

In considering the realized cost of any given commodity or group of commodities it is important to keep in mind all of the programs bearing on them. For example, the total realized cost directly chargeable to the basic commodities during the period covered by this statement is \$5,632.7 million for all programs primarily for stabilization of farm prices and income, although as the appendix indicates only \$392.7 million of this cost is attributable to the CCC nonrecourse loan, purchase and payment programs.

Not all of the costs in the category "Programs primarily for the stabilization of farm prices and income" could be allocated to commodities as is indicated at the bottom of the appendix where such items of cost as interest, administrative expenses, etc. are identified by broad programs only.

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Throughout these comments reference has been made to the term "realized cost." The basis for the application of this term is described in the heading on the statement itself, and the reason for the use of this method is outlined below.

"Realized cost" means the net cost actually incurred to date. It was adopted as the basis for the statement since (1) it is a realistic measure of the actual financial results of program operations within a specified time, and (2) it is a common denominator which can be applied to all programs regardless of how they are financed. For example, the advancing of a loan to a borrower under one of the Department's lending programs is not considered a cost. It is regarded as an investment which will be repaid. However, the interest paid by the Government on funds provided for lending purposes is considered a realized cost of the year in which it accrues. Similarly, interest collected from the borrower is included as income, or a reduction of cost. The principal amount of a loan becomes a cost only in the event the borrower defaults and the loan is written off by the Department. This example is illustrative of how the realized cost approach comprises elements of cost as distinguished from cash outlays, and how it also takes into account income and program credits. The realized cost basis can be applied to all programs since, regardless of how funds are made available for carrying out a program, there is in each instance a measurable net cost of operations to date.

Many of the Department's programs are financed directly from appropriations, some activities are carried out by corporations using their corporate funds, and others are operated from revolving funds. Funds available, therefore, is not a practicable common denominator for all programs; it likewise does not take into account income or offsetting receipts arising from operations. Realized cost does not include any element of anticipated gains or losses and, accordingly, is not synonymous with "accrued cost" or "accrued income and expense."

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